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IN BRIEF

Agricultural market difficulties

— Proposals to overcome them

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8

In presenting to the Council its proposals concerning the fixing of prices for agricultural products for the 1980/81 marketing year (1), the Commission emphasizes that they are inextricably linked with the adaptation of the measures to restore the market equilibrium proposed in November 1979. These earlier proposed measures were only slightly modified as far as the milk and sugar sectors are concerned (see references in text). Therefore we are setting out below the essential elements of these earlier proposals in order to complete information on the 1980/81 prices proposals, with which they are so closely linked.

(1) "Green Europe Newsletter - In brief" N° 7 - February 1980

Background

On 22 November 1979, the Commission submitted important proposals to the Council concerning the most critical market sectors of the common agricultural policy. These are marked by big surpluses, and in consequence of these, by disproportionately heavy expenditure, which now threatens the survival of the policy itself. For two of these - milk and sugar - it is justified to speak of a long-term or structural surplus while for certain other products not in structural surplus the Commission considers that cost-effective improvements in the market organizations can be made : these products are beef, certain cereals and cereal products and some types of processed fruit and vegetables.

In putting forward this series of measures, the Commission has stressed again that in its view the higher living standards and the broader benefit resulting from the free circulation of goods and the industrial common market are now as before linked, both politically and economically, with the existence of the common agricultural policy.

For a considerable time past the Commission had continually drawn the Council's attention to the problems of the milk and other sectors, which had consequently become common knowledge. The more recent problems associated with financing of increasing costs within the "own resources" ceiling, in the absence of effective corrective measures adopted by the Council, has simply made the solution of these problems all the more urgent if a total breakdown of the CAP is te be avoided.

The basic principles of the Community's agricultural support arrangements - in particular, Community preference and Community financing - and the main mechanisms by which a reasonable level of support for farmers should be ensured through the market price, are as soundly based and as well-suited to the Community's situation now as when the first decisions were taken. Community farmers are entitled to expect them to be continued because they are in the Community's interest.

The Commission considers that the Council's decisions should be guided by the following principle :

For those products which are in structural surplus, the cost of disposing of increases in production beyond an agreed level should fall on producers themselves. The existing mechanisms of support would remain open, but the additional cost would be passed back to producers, either through a lower average price, or through a co-responsibility levy.

There would thus be Community support for very substantial production, but not for unlimited expansion. The Commission emphasises that these arrangements should apply only to products in structural surplus, and for such time as there is a market imbalance or a clear risk of such imbalance. As the arrangements proved successful, they would also be temporary. The difficulties should not be over-stated. The budget can be controlled and reduced.

The Commission's new proposals

Milk

It has only been possible to continue to operate the milk market organization as it now exists by the use both of subsidized sales from intervention, and measures such as export refunds and aids for skim milk powder whose object is precisely that of reducing quantities coming into intervention. Unfortunately these quantities have continued to increase to such an extent that the costs are now intolerable.

In 1977 the Council already decided to impose a co-responsibility levy of 1.5 % of the target price on all milk delivered by milk producers, with the exception of those in some mountain areas, and in the South of Italy.

This co-responsibility levy entered into force on 16 September 1977. The Council of Ministers reduced the co-responsibility levy in the framework of its compromise price-decisions for the 1978/79 and 1979/80 milk years to 0.5 % of the target price. It was, however, also decided that this levy would be increased by one point, if milk deliveries in the calendar year 1979 were to exceed the quantity delivered in 1978 by more than 2 %. The Commission now proposes to apply that decision and to increase the present 0.5 % to 1.5 % of the milk target price. Production estimates of deliveries of milk to dairies in fact indicate that the rise in comparison with 1978 will be 2.4 %.

The new levy would come into effect in the milk year 1980/81.

But experience in the past has shown that such a limited levy of 1.5 % is insufficient. Only with the help of additional measures can be critical situation be changed. For this reason the Commission proposes to introduce a supplementary levy.

The broad principle is that each dairy (strictly speaking, first buyer) will pay a supplementary levy sufficient to cover the calculated disposal cost to the Community budget of the additional milk purchased by that dairy in 1980 by comparison with a reference period. Dairies which do not use more milk will not pay any supplementary levy. A dairy which pays the supplementary levy can recover the cost from the dairy farmers who supply it with milk as it wishes.

Thus the level of support for dairy farmers' existing production is maintained but any dairy which now increases its volume of milk will receive a very low return from the additional milk, reflecting its low value in conditions of substantiel surplus. There is no artificial discrimination between Member States. Simply, extra milk earns less money.

As a matter of convenience, the regulation lays down that in order to ensure some revenue during the year there can be payments on account based on a 3 % levy on the total volume of milk if a dairy expects to be increasing its purchases. The basic principle remains, however, that at the end of the year the dairy will pay, and will only pay, a supplementary levy covering the disposal cost of its additional purchases. The latest forecasts indicate that, were the supplementary levy not applied, milk deliveries would rise in 1980 by about 2.1 % - this means about 1.9 % million tonnes of milk or 83,000 tonnes more butter and 166,000 tonnes more skimmed milk powder - and it is estimated that the disposal cost to the Community budget would be about 343 million ECU. It will thus be clear that a supplementary levy applied to the extra milk sufficient to meet this cost would be about 18 ECU per 100 kg.

The Commission considers that the supplementary levy, being directed towards the profitability of future expansion, should apply without further exemptions or exceptions. Nonetheless, the Commission has given further study to the situation of small producers in difficult circumstances, in the light of the Council's decision last year to increase the basic co-responsibility levy to 1 1/2 %. The Commission is prepared to propose that, in respect of this basic levy, a levy-free franchise of 60,000 litres a year should apply to the deliveries of producers in the less-favoured areas, since the Community has recognized that in these areas there are already special circumstances prevailing.

The Commission is convinced that it is in the Community's interest and that it is possible to achieve the two objectives which it has repeatedly stressed in recent years : to maintain the support system for Community milk production which is the backbone of much of European farming, and of massive importance to European consumers, and to check the <u>increase</u> in production and disposal costs, which otherwise threatens to break the system. The rate of increase in milk production is expected to be lower in 1979 than in 1978 and lower again in 1980 than in 1979. Consistently with its policy that immediately effective measures are needed to check the increase, the Commission proposes that the supplementary levy system should be introduced for a period of 3 years.

The application of the supplementary levy at the level of the farm rather than the dairy would be too difficult for the Community to administer, too inflexible and would freeze structures at the farm level.

It might be necessary to establish certain guidelines concerning the manner in which the supplementary levy is reflected in the milk price paid to individual producers, taking into account, for example, the circumstances of young farmers who are in the process of developing their dairy enterprise.

The Commission considers its proposal of a supplementary levy to be the only solution :

- it leaves the choice of whether or not to produce additional quantities to the producers themselves;
- it applies to each dairy the rule that if there is no more milk than in 1979 (minus 1 %), there is no supplementary levy to pay in 1980;
- it ensures that, however much milk production increases, there should be no need for supplementary funds for the milk sector.

Sugar

The Commission is presenting a new sugar regime to the Council to apply from 1980/81, initially for a period of five years. The proposal is again based on the principle that the cost of the disposal of surpluses, after allowing for a reasonable estimate of Community consumption and exports, would be the responsibility of producers themselves. In this case the Community continues to take responsibility for the cost of the export of white sugar corresponding to the Community's imports under preferential arrangements of about 1.3 million tonnes of sugar from ACP countries.

It would have been better to abondon the quota system. Since this is not realistic, however, the Commission proposes to modify the maximum quotas by basing them on production under the existing quotas in the best two of the four last completed campaigns (1) and applying a coefficient so that the Community total corresponds to a new production plan of about 10.3 million tonnes (9.5 million tonnes of Community consumption and 0.8 million tonnes of exports). The mawimum quota of each enterprise is then allocated as to 80 % to A quota and 20 % to B quota.

The A quota is levy free and the maximum levy in the B quota may not exceed 40 % (formerly 30 %) of the intervention price. A further condition is that the A quota of any enterprise may not fall to less than 90 % of its existing level. The effect of these arrangements is that the total maximum quotas are close to 10.4 million tonnes (cf. 1978/79 : total A + B + C = 11.52 mio t). The net cost of the new proposed regime to the Community budget will be substantially less than the present arrangements. In normal circumstances the cost of all exports will be borne by the industry itself, either because the cost will be matched by the B quota levy or because sugar will be exported outside the financial responsibility of the Community. The only charge to the budget will be the disposal of the sugar equivalent to the sugar imports from ACP-countries; at current prices this might cost about 300 million UCE in export refunds. Net expenditure on sugar in 1980 was estimated before these proposals at about 651 million UCE.

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(1) This reference period could be connected to the two best of the last five sugar years (proposals February 1980)

The Commission rejects categorically the criticism that these proposals would not be equitable to certain Member States. The proposed quotas are based on actual production under quota in a reference period (actually the two best of the last four years). Leaving aside the French Overseas Departments, the quotas available in each Member State will be in the very narrow range of about 93 % (most Member States) to 95 % (United Kingdom) of actual production under quota in the reference period, the slightly more favourable position of the United Kingdom being accounted for by the additional rule that A quotas are not to fall by more than 10 %. Thus the adjustment is fairly shared. In practice, the proposals mean that likely production within quotas in the future will be about 113 % of the average production of the last four years in the United Kingdom, slightly above the average production in metropolitan France, Italy, Belgium and slightly below in Germany, Denmark and the Netherlands, but the net budget cost should be substantially lower.

Beef

The beef sector is not in structural surplus. On the contrary, the Community is not normally self-sufficient in beef. Nonetheless, there are features of the present rules which give cause for concern both on grounds of efficiency and of budgetary cost.

In particular, there has been a continuing flow of beef into intervention in some parts of the Community, even when there appears to be a strong commercial demand for the same product elsewhere, or at times of the year when Community beef supplies are at their lowest. The resulting expense is unnecessary, and in the Commission's view adequate support can be provided for Community beef producers at less cost. The Commission therefore proposes :

a) a firm commitment to establish Community classification of fat cattle carcasses, and to define the reference quality as from the next marketing year. This will allow the establishment of genuinely common standards of intervention for the first time;

b) to fix the guide price in relation to the reference quality, on a deadweight basis;

c) to make intervention available only when the Community average price for the intervention categories is at or below the intervention price level;

d) to abandon the national coefficients which have the effect of setting buying-in prices at varying levels in different Member States;

e) under normal circumstances, to suspend intervention from April to mid-August, and rely on private storage if necessary during this period. The minimum saving from this suspension ought to be 60 mio UCE for a twelve-month period. A further 50 mio UCE might be economized by establishing an intervention system based on an average Community market price with harmonized intervention standards.

Rye

Under the present Community market organization for cereals, rye is not included in the "silo" system, which allows for free competition between those cereals with a common single intervention price. Rye at present bears a higher intervention price, which has led to increasing intervention buying - from 28,000 tonnes in 1976/77 to 460,000 tonnes in 1978/79. The result has been some shortage of rye for animal feed.

Other resulting developments have been more cultivation of rye in Member States where it has not traditionally been grown, without an adequate market other than intervention being available for the extra quantities, and a high cost of export. Stocks are still increasing since the higher intervention price continues to provide an incentive over other cereals.

The point is being reached where the total cost of market support for rye, including export refunds is becoming disproportionate, particularly in view of the fact that the extra expenditure, as explained above, is not contributing in any way towards improving the market situation and sales prospects.

The cost of export in 1978/79 was 114 ECU/tonne on an amount of 290,000 tonnes.

In order to remedy this situation, the Commission is proposing first and foremost to include rye in the "silo", but with a transitional period to give producers time to adapt to the common intervention price level. It will also be necessary to give a premium on rye of bread-making quality so that during the transitional period the 1979/80 intervention price level may be maintained. Intervention stocks will be reduced by sales, during the transitional period, onto the Community fodder cereals market at prices which allow the rye to compete realistically with that for barley. It will be necessary to take steps to guarantee that the rye is not then used for purposes other than animal feeding.

Starch

The Commission proposes gradually to phase out the production refund which has in recent years been paid to the starch and other associated industries (maize groats, Quellmehl). The main reason for this extra support in the past has been competition from synthetic products. Since these are derived from petro-chemicals, and crude oil prices have risen, and are likely to continue to rise in the future, much more steeply than Community cereal prices, this justification is questionable, and is likely to disappear altogether before long.

Furthermore, two-thirds of maize used for starch production is imported, while only 1 % of Community wheat is used for starch. However, Community starch potato producers have only the starch industry as an outlet, and measures will be taken to protect them in the light of the abolition of the production refund. These will be included in the common potato regime which the Council has still to adopt on the basis of long-standing Commission proposals.

The phasing-out proposed would be operated between now and 1983. The current total support expenditure in this sector is 140 mio ECU.

Fruit and vegetables

The cost of this sector has risen substantially. The annual rate of increase between 1975 and 1980 is estimated at over 33 %. A very large increase is expected in 1979 and 1980, as a result of the introduction of the aids for processed fruit and vegetables, particularly tomatoes. The Commission has given serious consideration to the publication of a quantitative limit on the volume of production which may benefit from the aid for processed fruit and vegetables, and, if necessary, will make proposals in this sense. In the meantime, the Commission considers that from 1980/81 tighter criteria for calculation of the level of aid should be introduced. It proposes, firstly, that taking account of the development of production, it would be sufficient if the aid were set so that it covered 90 % rather than 100 % of the difference between the calculated costs of Community production and the price of imported products. Secondly, the Commission proposes the introduction of an additional criterion governing the level of aid, namely that the calculated aid must be adjusted if the level of price of the domestic product on the Community market, after payment of aid, is significantly below the price of competing products from other sources.

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In conclusion

The benefit to the Community budget in a full year of the measures set out above, by comparison with the existing arrangements will be about 1000 million (one billion) UCE (1).

If the decisions are not taken, the Community will have serious difficulty in fixing prices for the next marketing year because the conditions for financing them would not be met.

In making its proposals the Commission has been guided by the following principles :

- better balance must be attained on agricultural markets, especially for milk and sugar. This should be done by increasing consumption inside and outside the Community where this is feasible, and by restraining production;
- for products in structural surplus, the cost of getting rid of future increases in production must fall on producers themselves;

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(1) Combined with the effect of 1980/81 price proposals and other measures adopted the EAGGF budget should be 823 MEUA less than the total appropriation in the draft budget 1980.

- where the consequences for the income of small and medium-sized producer are really intolerable, and no alternative crops or areas of production are available to them, help must be provided, and the Commission is immediately undertaking a further examination of their situation;
- available resources for the restructuring and development of agriculture should be concentrated on poorer farms and less-developed regions.

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